

EUROPEAN BACKGROUND INFORMATION COMMUNITY

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BACKGROUND NOTE

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COMMON MARKET STUDIES NEW PROPOSALS FOR CONSOLIDATING AIRCRAFT INDUSTRY

Europe's aircraft industry will share the fate of the pterodactyl, if it does not join forces to survive in today's highly competitive world, according to the Commission of the European Communities.

The Commission gave this warning early this month in its first proposal to carry out the political decision by the EC Council of Ministers last March to coordinate policy on their countries' aerospace industries. If passed by the Council, the proposal would become law, creating

- a common policy for the civil aircraft industry
- a European "airspace" with common aviation rules and flight routes based on regional needs rather than national vanities.

The Civil Market

The European civil aircraft industry's current problems are both cyclical and structural. The recession and the increase in fuel prices have reduced travel, leaving airlines overequipped. The few airlines that are re-equipping are choosing proven models rather than completely new aircraft. This situation has hit European manufacturers especially hard, since it has coincided with the marketing-readiness of their main new aircraft (Airbus, Mercure, Concorde, F 28, VFW 614). Their price competitiveness has also been hurt by the depreciation of the US dollar and by a higher rate of inflation than in the United States.

Because of the high cost of research and development (R & D), all the new European aircraft have been produced by cooperative arrangements of one type or another between European manufacturers. However, there has been no concerted marketing and sales strategy, so that companies that work together to develop aircraft often compete against each other to sell them.

The same fragmentation holds true for governments. Public funds are pooled to develop aircraft, but national export credit and insurance agencies remain independent and sometimes follow conflicting policies.

This dispersal of effort undermines sales and means that production runs cannot be as long as they are in the United States (see Table 1). The longer the production run, the more profitable the aircraft.

One example illustrates the situation. The Airbus, Europe's only major project for a medium-haul plane, contains an American engine, because the British Government did not participate. Yet Rolls Royce supplied the engine for Lockheed's Tristar, the Airbus' competitor. Thus, a severe conflict of political and commercial interests divided Europe, with the Airbus competing with the Tristar throughout the world, even in Britain.

The Military Market

The military market accounts for more than 60 per cent of the European aircraft industry's sales. It is in this market that Europe is most divided.

Duplication of national projects multiplies costs and results in differences in aircraft and in ground support equipment. Each type of aircraft can operate from only certain airfields within the North Atlantic Treaty Organization (NATO) countries. Europe's divisions benefit the short-term interests of American suppliers. However, US long-term interests, like Europe's own, lie in the establishment of a coherent European weapons system, enabling European industry to make a more economic contribution to the joint defense.

Here, the Commission suggests that the EC member governments form a joint arms procurement agency for airborne weapon systems and begin discussions with the United States on mutual arms sales and joint weapons development. In the Commission's view, such discussions could result in

- the mutual opening up of markets and large two-way trade with accompanying economies of scale
- Europe's involvement in the development of every major sector of technology, but not necessarily of every product.

The Commission's formal proposals apply only to the civil aircraft industry.

A Blueprint for Survival

The common policy for civilian aircraft and aviation would, in the Commission's view counter the European industry's loss of markets and would result in sensible air traffic patterns based on travellers' needs. Joint financing and comparison of national development, manufacture, and marketing plans would reduce wasteful duplication of effort.

The common policy would consist of

- a common program for every activity connected with the manufacture of large civil aircraft, including work done jointly with manufacturers outside the Community
- common financing, replacing national financing of research, development, and production tooling

- a common program for certain types of Community-financed basic research
- Community financial support for marketing, possibly through an institution resembling the US Eximbank
- harmonization of member states' laws and administrative practices affecting certification of airworthiness, environmental pollution, norms, and standards.

The European airspace would be managed by the Community with an eye to fair competition, sensible routings, and the best possible consumer prices. The Community would also conclude traffic rights agreements with non-member countries.

NOTE: Lending copies of the mimeographed proposal and annexes are available now. Printed copies of the proposal will be on sale before the end of the year.

TABLE 1

CIVIL JET AIRCRAFT PRODUCTION THROUGH 1974*			
<u>American Jet Aircraft</u>		<u>European Jet Aircraft</u>	
Boeing 720 and 707	897	Caravelle	[278]
Boeing 727	1195	BAC 111	219
Boeing 747	283	HS Trident	117
Boeing 737	407	VC 10	[47]
DC 8	[556]	Comet	[51]
DC 9	802	Mercure	[10]
DC 10	240	Concorde	9
Tristar	150	Airbus A 300	23
Convair	[83]	F 28	95
		VFW 614	10
Total	4613	Total	859
* in brackets: aircraft out of production			

TABLE 2

TURNOVER IN AIRCRAFT (in millions of units of account*)					
	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
EC	3,856	4,039	4,234	5,275	5,990
United States	23,427	22,286	19,663	18,484	16,368
* One UA = \$1.20635					